EXECUTIVE PROFILE

RICHARD P. SIMMONS

Richard P. Simmons is Chairman of the Board of Allegheny Teledyne incorporated and Chairman of the Executive Committee. Until May 18, 1990, he had been Chief Executive Officer of Allegheny Ludlum Corporation since 1980.

Allegheny Teledyne Incorporated is a federation of technology based manufacturing businesses with significant concentration in specialty metals complemented by aerospace and electronics, industrial and consumer products.

Mr. Simmons led the purchase of Allegheny Ludlum Steel Corporation with a number of other key management employees and other private Investors in December, 1980. In May, 1987, Allegheny Ludlum Corporation once again became a public corporation traded on the New York Stock Exchange. In August 1996 Allegheny Ludlum Corporation and Teledyne, Inc. combined to become Allegheny Teledyne Incorporated.

Mr. Simmons is also a director of PNC Bank Corp. as well as a director of Consolidated Natural Gas Company and a director of Allegheny Teledyne Incorporated.

Born in Bridgeport, Connecticut, and graduated from Massachusetts Institute of Technology in 1953, Mr. Simmons began his career with Allegheny Ludlum Corporation in 1953, held management positions with Republic Steel Corporation and Latrobe Steel and returned to Allegheny Ludlum in 1968.

Mr. Simmons is a life member of the M.I.T. Corporation. He is a member of the American Institute of Mining, Metallurgical and Petroleum Engineers and received its Benjamin F. Fairless Award in 1989. He is a fellow and a Distinguished Life Member of the American Society for Metals and was awarded its medal for the Advancement of Research in 1991. In 1986, Mr. Simmons received the William Metcalf Award of the Engineering Society of Western Pa. for outstanding engineering achievement.

He was elected to the National Academy of Engineering (NAE) IN 1998.

He is past chairman and a member of the Executive Committee of Allegheny Conference on Community Development; a director and past chairman of the United Way; a trustee of The Carnegie; former chairman and life director of the Pittsburgh Symphony Society: and a director of the Allegheny Trails Council, Boy Scouts of America.

He received honorary Doctorates from Robert **Morris Collage in 1989,** from **Washington &** Jefferson College in 1991, Duquesne University in 1995 and California University of Pennsylvania in 1 996.

October, 1999

Testimony of
Richard P. Simmons, Chairman
Allegheny Teledyne Incorporated

Before the

U.S. Trade Deficit
Review Commission

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I. INTRODUCTION

Chairman Becker and members of the Commission: I am pleased to be here today to discuss the U.S. specialty steel industry's longstanding struggle against unfair trade practices, and the crucial role the U.S. trade laws have played in that struggle. For more than three decades, the U.S. specialty steel industry has waged a continuous legal and political battle against injurious and unfairly traded imports. I have been involved in all of those battles. We have employed a variety of trade remedies in these efforts, including VRAs, quotas, increased tariffs, antidumping and countervailing duties. These remedies have helped the industry maintain its technological superiority in the intensely competitive international market for specialty steel by providing a viable financial environment for research and development in new products and new product applications, investment in new facilities, and the development of more efficient production methods.

I want to emphasize, however, that these legal remedies have not eliminated the fundamental conditions of foreign overcapacity and subsidization that have been the root cause of the industry's import problems. We have not been able to find permanent solutions to these recurrent problems. Until these conditions change, the U.S. specialty steel industry, like other high-technology segments of the U.S. economy, will be vulnerable to the unfair import practices of foreign producers. The industry must, therefore, continue to rely on the effectiveness of our current trade laws to mitigate the adverse impact of these practices, and the conditions that give rise to them, until the day adoption of more effective trade laws can bring about a fundamental change in these conditions.

II. HISTORY OF THE INDUSTRY'S STRUGGLE AGAINST UNFAIR TRADE PRACTICES

It is instructive at the outset to focus on the history of the specialty steel industry's three decade-long struggle against unfair trade practices. The specialty steel industry's experience combating these practices provides a compelling case study of how an industry can use the trade laws, and provides a unique perspective on the strengths, as well as the limitations, of those laws.

The ongoing crisis in international steel trade began over 40 years ago. Steel imports into the United States increased more than tenfold over the period 1958-1968, with the great bulk of imports coming from the rehabilitated countries of the European Community and Japan. The surge was attributable to the same conditions that gave rise to our most recent filings of trade cases in 1998, **40** years later – excess foreign capacity, foreign government subsidies, and the unfair pricing necessary to sell the excess production caused by these practices.

The Johnson Administration's solution to the domestic steel industry' problems was to seek voluntary quota programs with foreign producer associations. Both Japanese and European steel producers agreed to limit steel shipments to the United States to specified maximums for each of the years 1969-1971. These voluntary quotas were subsequently extended from 1971-1974 in response to pressure from the domestic industry and Congress.

These quotas were based on tonnage, and since the first voluntary quotas did not distinguish between ordinary carbon steel and specialty steel, they encouraged foreign producers to change their product mix from the predominantly lower value-added carbon steel to an increasing proportion of higher value specialty steel. At that time, carbon steels were selling in the $120-200 range. In comparison, stainless was selling for over $1,000 per ton and certain tool steels were selling for more than $7,000

per ton. By increasing their exports of specialty and alloy tool steel products, Japanese and European producers increased the dollar value of export sales during the restraint period, even as they maintained or even reduced their overall export volumes.

The sharp and sudden increases in specialty steel imports under the 1969-1974 voluntary quota system provide a compelling lesson that is relevant to this day. Unlike the United States, where carbon steel and specialty steels are produced by different sets of independent companies, a number of large foreign producers produce both carbon and specialty steels under the same corporate ownership. Hence foreign producers have the capability, and have proved they have the willingness, to shift production to specialty steels, if such products are excluded from a VRA program or any other comprehensive program of import relief; or as in the case of the 1969 VRA's, such agreements are sloppily drafted. Accordingly, any comprehensive initiative undertaken on behalf of the steel industry generally must take into account this shifting phenomenon and not exclude high-value specialty steel products

In 1975, the year after the first steel voluntary quota program expired, imports of specialty steel increased 20 percent while American consumption decreased by 40 percent. The specialty steel industry laid off 25 percent of its work force and was utilizing only one-half of its productive capacity. Given these conditions, the U.S. specialty steel producers and the United Steel Workers of America filed a Section 201 petition seeking relief from the flood of stainless and alloy tool steel imports that threatened the future of the American specialty steel industry and the security of American jobs. This was one of the first such cases under the rigorous requirements of the “Escape Clause” law.

After an extensive 6-month long investigation, the ITC determined the specialty steel imports were a substantial cause of serious injury to the domestic industry. In response to this finding, President Ford set three-year quotas for imports of certain specialty steel from Sweden, Canada, France, Great Britain, Austria, and the West

Germany. The United States simultaneously negotiated an orderly marketing agreement with Japan. The import quotas were scheduled to expire in July 1979, but President Carter extended the quotas through February 13, 1980.

In the first five months of 1980 following removal of the quotas, specialty steel imports increased 29 percent. Thus, the pattern continued – no restraints, surges of imports. The industry again turned to the trade laws, unleashing an aggressive attack on unfair imports of specialty steel. During the 1982-1984 period, the Specialty Steel Industry of the United States and the United Steelworkers of America filed and won numerous antidumping and countervailing duty petitions against individual specialty steel producers from around the world.

Still the import surges and the injury they caused our industry did not abate. A more comprehensive solution was obviously needed. So in January 1982, the industry filed a Section 301 petition with the United States Trade Representative. The 301 petition alleged that several EC countries, including Austria, France, Italy, Sweden, the U.S., and Belgium, were subsidizing specialty steel products in violation of the GATT. In November 1982, President Reagan, after confirming the industry's allegations of subsidization, directed the ITC to initiate a Section 201 investigation – like the one we filed in 1975 – with respect to stainless plate, rod, bar, sheet an strip, and alloy tool steel. The ITC completed the requested investigation in May 1983, finding once again that the specialty steel industry has suffered serious injury, and that the most important factor in causing that injury was the dramatic growth in imports during the 1980-1983 period. President Reagan, accordingly, instituted an import relief program for specialty steel, which included a four-year series of gradually lowering tariffs on stainless steel flat-rolled products and four-year import quotas on stainless steel bar and wire rod, and alloy tool steel.

Of course, there were other developments. In 1983, Bethlehem Steel and the U.S. Steelworkers filed a Section 201 case on carbon steel products. While the case

resulted in an affirmative injury determination, President Reagan chose not to provide – as he had in the case of specialty steel – specific import relief. instead, on September 18, 1984, President Reagan established a national policy for the steel industry that included the negotiation of voluntary restraint agreements with 19 countries and the European Community. The VRA program was initially designed to limit imports of carbon steel into the United States. It eventually incorporated a number of specialty steel products, which were previously covered by the 1983 Section 201 import relief program. One lesson had been learned in this case: separate limits for specialty steel products were negotiated with the major exporting countries.

The specialty steel industry benefited greatly from the VRAs. During the first five-years of the VRA program, the industry achieved tremendous increases in productivity, shipments, employment levels, exports, net sales, net operating profitability, and capacity utilization. These improvements were accompanied by increases in investment, including research and development.

The industry, however, recognized that the VRA's had not cured the endemic overcapacity and persistent unfair trade practices that led to the imposition of the import restraints in the mid-1980s as the international trade press and market studies continued to announce expansions, modernizations, and reclamations of foreign producers' specialty steel capacities, frequently nurtured by so-called "state aids" – in other words subsidies. If the VRAs were dismantled prematurely, the same problems that had distorted the market in the early 80s would recur. To prevent this recurrence, domestic producers argued that the VRAs should be extended for five years.

On July 25, 1989, President Bush announced the Steel Trade Liberalization under which the VRAs were extended for 2 ½ years – a concession to steel consumer groups. All specialty steel products were included within the framework of the extended VRA program, despite efforts on the part of many consumer groups to exclude them altogether. Thankfully, the specialty steel industry's proven vulnerability to foreign

producer product- shifting convinced the President that the effectiveness of the VRA extension would be undermined if specialty steel products were excluded.

I well remember the period in early 1992 as the VRAs were inching closer to termination. Although some quotas were unfilled in carbon steel products, many specialty steel product categories had been at or even over quota from the end of 1991. It seemed obvious what was going to happen upon termination of the VRAs. In a speech at the time, I said that "I am concerned that when the VRAs end, foreign producers will take advantage of the situation and we will experience a new flood of specialty steel imports."

Unfortunately, my words proved prophetic. In all product lines, specialty steel imports surged after the termination of the VRAs on March 31, 1992. Total imports of stainless steel sheet and strip, the principal specialty steel product line, exploded, increasing by 105 percent from 1991 to 1993, even as U.S. consumption of stainless sheet and strip – the market – increased by only 31 percent.

Again, the industry sought relief through the trade laws to redress the unfair pricing and subsidization that were the root causes of these import surges. Starting with anti-dumping cases against Korean and Taiwanese producers of stainless steel pipe and tube in 1992, the industry has filed some 49 separate antidumping and countervailing duty cases against 16 different countries since the end of the VRAs, winning relief in 80 percent of those cases.

And it is important that I emphasize that we have won 80 percent of those cases, for as anyone with the slightest familiarity with the trade laws as currently administered can attest, these cases are long, expensive exercises, in which the burden of proof lies with the U.S. industry to prove to impartial government agencies both the existence and the extent of the unfair practice, as well as injury. Our success rate – against a backdrop of less than half of all unfair cases succeeding – is conclusive proof that the foreign unfair practices and injury they cause are not just allegations, but fact,

corroborated only after exhaustive governmental review. And the battle, regrettably, goes on – just this week U.S. producers and the USWA filed a case against--stainless steel hollow products from Japan.

III. THE CURRENT SITUATION

This brings our story up the present day, and a chance to relate it to the topic of this meeting, the balance – or more accurately, imbalance – of the trade in specialty steel. For although the domestic industry's balance of trade is influenced by a few factors beyond its control, such as exchange rates, these factors have been overemphasized in explaining the chronic imbalance in the global specialty steel trade balance. A historical view, as I have attempt here. reveals that significant trade deficits have persisted regardless of exchange rates or demand levels, whether stronger or weaker. Consequently, I believe the structural problems in other countries, which is the theme of my talk today, have had a far greater and more detrimental influence on our industry's trade balance.

To reiterate, the primary structural problem is persistent and substantial overcapacity abroad, caused in large part by state subsidization of otherwise noncompetitive producers. Despite strong growth in consumption, the overall health of the U.S. market has been undermined by the even more rapid growth in capacity. (See Chart 1, which is attached to this presentation). With few exceptions around the world – a notable one being the United States – production capacities are far in excess of national or regional needs, particularly in Western Europe and Japan, which account for two-thirds of the world's production but less than one-half (47 percent) of the world's consumption. As a result, many foreign producers rely heavily on exports to make viable use of this excess capacity.

This overcapacity and reliance on exports has, in turn, fostered rampant unfair trade practices focused on the U.S. market. Predictably, the countries with the greatest

excess capacity are the worst offenders, as evidenced by the number of successful unfair trade cases filed and won by the domestic industry.

It follows that exporting to these foreign markets is an exercise in frustration. (See Chart 2, also attached). Looking at cold-rolled stainless sheet and strip, the predominant specialty steel product line, there are clear differences in market access around the world. For each ton the United States exports to Western Europe, it imports 12 tons; for each ton we send to Japan, the United States takes 260 tons in return. But it does not stop there. While Western Europe and Japan liberally export to the United States, their exports to each other can only be described as insignificant. The inescapable conclusion is that the United States is the only developed market fully open to exports from outside its own continent. Consequently, the United States absorbs a disproportionate share of the rest of the world's excess production that is the consequence of overcapacity. That is fact, not theory, as chart 2 shows.

A meaningfully analysis of the balance of trade must consider these facts. In this light, I submit that the link between the industry's competitiveness and its trade balance has been severed. Instead, the persistent trade deficits epitomize these structural problems and reflect the adverse impact they have had on the U.S. specialty steel industry. Again, the proof is in the numbers. Despite the series of trade actions over the past 30 years I have described, the total import penetration in our largest product line, stainless sheet and strip, stands today at 22 percent, over double the market share of 1983, when we won our second Section 201 case, and far greater than the 17 percent recorded for 1992, the year the VRAs ended. In stainless rod, despite benefiting from the Section 201 quotas, VRAs and two sets of unfair trade cases filed and successfully concluded since 1994, import penetration is today at 66 percent, two-thirds of the U.S. market.

IV. PRESENT AND FUTURE INITIATIVES TO ADDRESS UNFAIR TRADE PRACTICES IN STEEL

I am pleased to say that the U.S. specialty steel industry has survived this challenge. We are a modern, technologically advanced industry capable of competing worldwide. The aggressive application of our trade laws has been an important factor in our survival. Still, history is not without its lessons, and I would like to point out some troubling aspects of this history. First, the specialty steel industry has always had to be proactive in defending its markets. One troubling aspect of this history is that the import relief measures granted pursuant to current U.S. trade laws are prospective in nature – that is to say, they are available only after substantial damage has been caused, and proven to the government investigative agencies. In fact, the way the trade laws work, the filing of trade cases often times must be delayed, despite proof of unfair trade, in order for sufficient injury to develop to satisfy legal standards. A second limitation of these unfair trade laws is that there is no real penalty imposed on those countries and foreign producers found guilty, merely a neutralization of the unfair acts in the future. For example, no punitive actions are possible against stainless producers in Italy and their government, despite our proving subsidization, dumping, and injury by imports from that country for stainless steel sheet and strip, stainless plate, stainless rod, and electrical steel, all in the last 6 years.

There are in fact no compensatory remedies available for the harm caused by over three decades of unfair import competition. For this reason, I have long urged passage of legislation that would provide a “private right of action” for companies injured as a result of dumping and subsidization

Private right of action legislation would give private parties access to the courts to seek compensation for injurious unfair trade practices, as is true under the antitrust laws. The legislation made sense in 1988 when the industry first advocated its passage and it continues to make sense today. Private right of action legislation, both as a

disincentive to unfair trade, and as a remedy for past harm, is an idea whose time has come.

After 30 years of fighting this war, I have come to believe that the only way we will permanently solve "the steel crises" is to have a legal regime in place that will enable high technology industries like specialty steel to not only insulate themselves from the endemic practices, like dumping, but also hold those competitors who persist in these unfair practices accountable, as a necessary step toward a permanent solution to the persistent foreign overcapacity and the state subsidies that give rise to it.

CHART 1

Comparison of Production and Consumption of Stainless Steel in Major Developed Global Markets Annual 1997

(in thousands of metric ions)

Country/Region	Total . Production	Total Consumption	Excess Production	
			In Tons	As a Pct. of Consumption
Total Western Europe	7,005	4,227	2,778	66%
Japan	3,942	2,142	1,800	84%
United States	2,161	2,217	(56)	-3%
World Total	17,019	13,510	3,509	26%

Source World Stainless Steel Statistics, 1998 edition

CHART 2

Trade Patterns in Cold-Rolled Stainless Sheet and Strip Between the United States, Western Europe and Japan Annual 1997

(in thousands of metric tons)

Destination Country/Region	Total Cold-Rolled Sheet & Strip Consumption	Export from United States	Exports from Western Europe	Exports from Japan	Total Extra-Continental Exports Absorbed
United States	1,443		76.6	51.7	178.2
Western Europe	2,450	6.6		8.4	26.2
Japan	1,063	0.2	6.6		6.9

Source *World Stainless Steel Statistics*, 1998 *edition.*